



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

September 22, 2010

TO: Nancy Floreen, President, County Council
FROM: Isiah Leggett, County Executive
SUBJECT: FY11-12 Fiscal Update – September 2010

Attached please find materials for the Council's scheduled Fiscal Update for September 28, 2010. In this packet, I am providing the Council with updated estimates on the County's economic indicators and Major Known Commitments (MKCs). County staff are still refining these expenditure estimates especially in the areas of group insurance, pensions, self insurance (risk management), and retiree health insurance (OPEB). Because we do not have complete information at this point in the fiscal year, I do not recommend updating the Approved Fiscal Plan from the FY12 revenue and expenditure estimates endorsed by the Council this past June. In late November, County staff will update the fiscal plan based on a more complete picture of the County's revenue estimates and expenditure obligations.

While audited financial statements are not available, preliminary indications are that we will meet our FY10 targets for tax-supported revenues, expenditures, and fund balance. This is due to the leadership and collaboration of the principals of all County agencies' and to the hard work and diligence of all County employees who understood and responded to the unique and historic fiscal challenge we faced in the past fiscal year.

The State's most recent revenue estimates indicated that its general fund revenues are projected to increase by 4.5 percent in FY11, but baseline revenue growth¹ "is a weak 2.5 percent." More sobering is the Board of Revenue Estimate's forecast for the housing market that "a rebound of any magnitude seems some time off." The stagnant revenue growth at the State has contributed in part to a projected FY12 budget gap of approximately \$1.5 billion, despite the recently reported improvement in the State's FY10 tax collections.

While County revenues appear to have stabilized (at a significantly lower level) in FY10, we are projecting revenue growth in FY11 at only 1.4 percent and in FY12 at 2.9 percent. The FY12 revenue estimate assumes that income tax revenues will increase by 6.6 percent in FY12. The challenge

¹ Excludes Highway User Revenues that are now directed to the State's General Fund instead of the Transportation Trust Fund and extraordinary corporate income tax revenues received in FY10.

for FY12 and future years will be to align this modest growth in revenues with the projected steep increase in the County's major known commitments, which are projected to increase by over \$145 million in FY12. These projected commitments would require a 4.3 percent increase in expenditures, whereas the Approved Fiscal Plan permits only a 0.1 percent growth in agency expenditures. I want to stress that the estimate of MKCs assumes that there is no wage growth for any County employee in FY12, from either a general wage adjustment or step increases.

Reconciling the County's sharply increasing costs with limited growth in revenues will almost certainly require another round of significant expenditure reductions in FY12. The guidance given to County Government departments in preparing for their FY12 operating budgets is to prepare reductions in their budgets in the 10 percent to 15 percent range. Given that these departments and agencies have already sustained significant budget reductions over the last several years, I recognize that this request will be extraordinarily difficult and will result in reductions to programs that may be our priorities. The specific reductions that I will recommend will be determined during this winter's budget process, but will likely substantially impact County programs and staffing levels. The fiscal discipline needed in FY12 will also prepare the County for FY13, which will be another challenging year with the sunset of the FY11 energy tax increase.

At this time, I am not recommending an FY11 mid-year savings plan to the Council. While savings plans have been an effective strategy in balancing the budget over the past three years, department and agency budgets are very constrained and allow considerably less discretion in producing a savings plan that would not impact direct public safety and safety net services. In addition, savings plans typically produce one-time savings and we must focus on reducing long term continuing costs. However, if there is a significant change in our revenue estimates including a repeal of the recently enacted Emergency Medical Transport Fee, we will be forced to immediately implement a mid-year savings plan that will impact public safety services especially in the Fire and Rescue Service.

I look forward to working with the Council, as we have done in the past, in developing a responsible and sustainable budget for our Community.

IL:jfb

Attachments

- c: Timothy L. Firestine, Chief Administrative Officer
- Dr. Jerry Weast, Superintendent, Montgomery County Public Schools
- Francoise Carrier, Chair, Montgomery County Planning Board
- Dr. DeRionne P. Pollard, President, Montgomery College
- Jerry N. Johnson, General Manager/CEO, Washington Suburban Sanitary Commission
- Annie B. Alston, Executive Director, Housing Opportunities Commission
- All Department Heads and Office Directors
- Administrative Service Coordinators and Functioning Equivalents
- Office of Management and Budget Staff

FY11-12 FISCAL ISSUES

Risk and Uncertainty (not included in fiscal plan)

1. Shift of Teacher Pensions to the County in FY12
2. Reductions in Local Aid:
 - a. Police Protection
 - b. College Aid
 - c. K-12 Education Aid
3. Revenue Deterioration:
 - a. Recordation and Transfer taxes
 - b. Income Tax
4. Costs Related to Storm Response: summer and over the winter
5. \$18 million in additional Federal Aid: For MCPS or "preempted" by State
6. Repeal of Emergency Medical Transport Fee (\$12.9 million net of implementation costs)

FY12-16 Expenditure Projections

1. Completion of actuarial analysis for Pensions and Self Insurance (Risk Management) Fund and rate setting for health insurance fund for all agencies
2. Update of OPEB Obligations for all Agencies
3. Furloughs
4. Expenditure/Service Pressures:
 - a. Maintenance Requirements (roads, facilities, cleaning)
 - b. Information Technology: desktop replacement, maintenance agreements, staffing
 - c. Vehicle Replacement
 - d. Public Safety staffing
5. Outcome of Collective Bargaining: wages, benefits, and OPEB
6. Recommendations from:
 - a. OLO Study of Structural Budget Deficit
 - b. Cross Agency Resource Sharing Committee
 - c. Organizational Reform Commission

Looking to the Future

1. Implementation of White Flint and Great Seneca Science Corridor sector plans
2. Business Retention and Attraction
3. Implementing Strengthened Reserve Policies
4. Resuming PAYGO and OPEB contributions

**County Council's Approved FY11-16 Public Services Program
Tax Supported Fiscal Plan Summary**

(\$ in millions)

[illegible]

	App. FY10	Restated FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
34 <u>Beginning Reserves</u>														
35 Unrestricted General Fund	115.5	115.5	-74.3%	29.7	360.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
36 Revenue Stabilization Fund	119.6	119.6	-49.5%	60.4	56.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1
37 Total Beginning Reserves	235.2	235.2	-61.7%	90.1	156.6%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9
38														
39 <u>Additions to Reserves</u>														
40 Unrestricted General Fund	-39.3	-39.3	-372.3%	107.1	-100.4%	-0.4	1300.2%	5.4	-119.9%	-1.1	668.3%	6.1	39.3%	8.5
41 Revenue Stabilization Fund	0.0	0.0	n/a	33.9	-28.6%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
42 Total Change in Reserves	-39.3	-39.3	-458.6%	141.1	-83.1%	23.8	8.2%	25.8	-12.1%	22.6	78.6%	40.5	0.5%	40.7
43														
44 <u>Ending Reserves</u>														
45 Unrestricted General Fund	76.2	76.2	79.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
46 Revenue Stabilization Fund	119.6	119.6	-21.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
47 Total Ending Reserves	195.8	195.8	18.0%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9	11.8%	384.5
48 Reserves as a % of Adjusted Governmental Revenues				6.0%		6.5%		7.1%		7.4%		8.0%		8.6%
49 Agency Reserves														
50 Montgomery College				0.0	n/a	4.0	1.9%	4.0	1.8%	4.1	1.8%	4.2	1.9%	4.3
51 MNCPPC				0.0	n/a	4.3	3.7%	4.5	3.5%	4.6	3.6%	4.8	2.6%	4.9
52 <u>Retiree Health Insurance Pre-Funding</u>														
53 Montgomery County Public Schools (MCPS)						53.2		64.8		76.4		87.7		92.1
54 Montgomery College (MC)						1.0		1.2		1.3		1.4		1.5
55 MNCPPC (w/o Debt Service)						4.4		5.1		5.6		6.1		6.4
56 MCG						25.0		31.5		38.4		44.6		48.8
57 Subtotal Retiree Health Insurance Pre-Funding						83.6	-	102.6	-	121.7	-	139.8	-	146.8

This fiscal plan summary reflects the following assumptions:

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.
2. Revenues reflect Energy Tax and Wireless Telephone Tax increases approved by the County Council on May 27, 2010. Energy Tax increase sunsets at the end of FY12.
3. PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16. See Row 14 above.
4. FY11 revenues reflect one-year redirection of Recordation Tax Premium (\$8 M.) and Recordation Tax for MCPS CIP and College IT (\$5 M.).
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12. See Rows 20 and 53-56 above.
6. Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16. Allocations to the four agencies (MCPS, Montgomery College, MNCPPC, and County Government) will be determined in the annual budget process.
7. FY11 reserves reflect restoration of reserves to current 6% (of tax supported resources) policy level. FY10 and FY11 reserves (see Rows 34-48 above) include all County and Outside Agency tax supported reserves.
8. FY12-16 Unrestricted General Fund Reserves are reduced in certain years to reflect compliance with Section 310 of the County Charter on maximum size of the general fund balance (shall not exceed 5% of prior year general fund revenues). Outside Agency reserves are excluded from these amounts and are displayed separately (see Rows 16 - 17 and 50 - 51 above).
9. FY12-16 reserves reflect proposed new reserve policy including increase in reserve levels and inclusion of capital projects and grant revenues as part of Adjusted Governmental Revenues.

Notes:

1. Restated FY10 excludes \$79.5 million for debt service that was double appropriated to MCPS to meet the State's Maintenance of Effort requirement and then reimbursed to the County.
2. As of 6-22-10, Actual FY10 agency uses are estimated to be \$103.0 million less than Approved or Restated FY10 due chiefly to reductions from two FY10 savings plans.

	B	C	D	E	F	G
4		MCPS	MCG	College	MNCPPC	Total
5	FY11 Approved Budget	1,919,842,746	1,163,556,250	215,774,676	92,653,170	3,391,826,842
6						
7	Potential or Negotiated Compensation					
8	General wage adjustment				541,413	541,413
9	Steps/service increments				279,461	279,461
10	Other projected bargaining costs					0
11	Group insurance cost increases	28,647,008	10,100,000	750,000	656,781	40,153,789
12	Retirement cost increases	6,145,386	10,300,000	150,000	2,507,400	19,102,786
13	Annualization of Positions		(50,710)	44,000		(6,710)
14	Cost increase due to enrollment	6,231,619		989,491		7,221,110
15	Elimination of One-Time Items	(360,750)	(7,854,110)			(8,214,860)
16	Restoration of Furlough Reduction		10,687,530	2,661,572	2,150,700	15,499,802
17	Restoration of One-Time Reductions:					
18	Road Maintenance		4,558,740			4,558,740
19	Desktop Computer Replacement		3,300,000			3,300,000
20	Vehicle Replacement		7,944,520			7,944,520
21	Other		4,628,570			4,628,570
22	Operating Impact of Capital Projects:					
23	Facilities	487,812	2,877,160	5,482,495	2,395,000	11,242,467
24	Roads		206,000			206,000
25	Tech Mod: Migration of Personnel Costs		944,400			944,400
26	Tech Mod: IT mtce agreements/licenses		1,506,060			1,506,060
27	Programmatic obligations:					
28	Public Libraries Staffing		343,160			343,160
29	Fire Rescue Recruit Class/SAFER Match		2,898,510			2,898,510
30	Election Cycle Changes		(2,366,110)			(2,366,110)
31	AHCMC -- Advancement Grants		300,000			300,000
32	AHCMC -- AFI		500,000			500,000
33	Community Grants: CIP Cost Sharing		250,000			250,000
34	Community Grants NDA		3,084,060			3,084,060
35	Fire Recue Apparatus Master Leases		255,340			255,340
36	Electronic Patient Care Reporting		192,000			192,000
37	Conservation Corps/PIIT Annualizations		213,510			213,510
38	Biennial Hall of Fame		7,570			7,570
39	Resident Survey		38,800			38,800
40	Working Families Income Supplement		2,327,800			2,327,800
41	New Leases (Addiction Services, others)		1,448,390			1,448,390

	B	C	D	E	F	G
4		MCPS	MCG	College	MNCPPC	Total
42	County Attorney Disparity Study		600,000			600,000
43	EDF Commitments (Costco, Thales, etc)		3,775,000			3,775,000
44	Scheduled Programmatic Reductions:					
45	Maryland Clean Energy Center		(286,200)			(286,200)
46	Timesheet Data Entry Contract		(75,000)			(75,000)
47	Lease Terminations		(592,210)			(592,210)
48	Tranit Services Master Leases		(1,225,220)			(1,225,220)
49	Inflation:					
50	Service Contracts (DGS)		196,000			196,000
51	Materials Contracts (DOT)		110,000			110,000
52	Energy/utility costs	3,615,203	1,000,000	297,675	321,026	5,233,904
53	Fuel/rate increases	1,299,029	2,000,000			3,299,029
54	Instructional materials/other					0
55	Nonpublic placements	2,786,998				2,786,998
56	Other			250,000		250,000
57	Other inescapable cost increases:					
58	Liability insurance, workers compensation	2,787,565	8,700,000	100,000	625,090	12,212,655
59	Maintenance, transportation, etc.	631,990				631,990
60						
61	Total Major Known Commitments	52,271,860	72,843,560	10,725,233	9,476,871	145,317,524
62						
63	Total Projected FY12 Agency Spending	1,972,114,606	1,236,399,810	226,499,909	102,130,041	3,537,144,366
64	% Change	2.7%	6.3%	5.0%	10.2%	4.3%
65	MCPS/College at Maintenance of Effort	1,981,540,850	1,236,399,810	217,273,936	102,130,041	3,537,344,637
66	% Change	3.2%	6.3%	0.7%	10.2%	4.3%

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

(\$ Millions)

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
USE OF RESOURCES	App. FY10	Estimate FY10	% Chg. FY10-11	% Chg. FY10-11	App FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
1 Total Resources	5-21-09	5-27-10	App / Bud	App / Est	5-27-10										
2 Revenues	3,804.9	3,613.9	-0.7%	4.6%	3,779.2	2.9%	3,889.1	0.5%	3,907.8	3.6%	4,048.0	4.7%	4,237.6	4.1%	4,409.6
3 Beginning Reserves Undesignated	115.5	112.0	-74.3%	-73.5%	29.7	360.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
4 Beginning Reserves Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
5 Net Transfers In	37.2	62.1	12.1%	-32.8%	41.7	-68.0%	13.4	2.4%	13.7	2.6%	14.0	2.8%	14.4	3.0%	14.9
6 Total Resources	3,957.7	3,788.0	-2.7%	1.7%	3,850.7	4.9%	4,039.2	0.5%	4,057.8	3.6%	4,203.8	4.5%	4,392.7	4.1%	4,571.2
7 \$ Change from prior Budget	77.0	(92.7)			62.7		188.6		18.6		146.0		188.9		178.5
8 Uses: Non-Agency															
9 Capital Investment (a)															
10 Debt Service: GO Bonds for all Agy's.	224.8	221.3	5.0%	6.7%	236.1	12.4%	265.3	10.5%	293.3	7.5%	315.4	6.4%	335.4	6.0%	355.7
11 Debt Service: Local Parks	5.0	5.0	-0.3%	-0.3%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9	0.0%	4.9
12 Debt Service: Leases	21.7	17.6	5.9%	30.5%	23.0	9.3%	25.1	21.2%	30.4	17.7%	35.8	6.5%	38.1	-7.0%	35.4
13 CIP Current Revenue	30.7	20.9	-22.6%	13.6%	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4
14 CIP Paygo	1.3	0.3	-100.0%	-100.0%	0.0	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
14a CIP Paygo Rec Tax	0.0	0.0	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
15 Sub-total Capital	283.5	265.1	1.5%	8.6%	287.8	28.1%	368.8	13.5%	418.6	12.2%	469.5	5.5%	495.1	-0.7%	491.9
16 Other Uses															
17 Set Aside: Potential Supplementals	0.0	60.1			0.0		20.0		20.0		20.0		20.0		20.0
18 Set Aside: Other Claims	2.5	0.0			0.3		2.5		2.5		2.5		0.0		0.0
19 Retiree Health Insurance Pre-Funding	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
20 Montgomery College Reserves	0.0	0.0			0.0		4.0		0.1		0.1		0.1		0.1
21 MNCPPC Reserves	0.0	0.0			0.0		4.3		0.2		0.2		0.2		0.1
22 Change to Undesignated Reserves	(39.3)	(82.3)			107.1		(0.4)		5.4		(1.1)		6.1		8.5
23 Change to Revenue Stabilization Fund	0.0	(59.3)			33.9		24.3		20.4		23.7		34.4		32.2
24 Sub-total Other	(36.8)	(81.5)			141.3		54.6		48.5		45.4		60.7		60.9
25 Reserves															
26 Revenue Stabilization Fund	119.6	60.4	-21.2%	56.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
27 Reserve Undesignated	76.2	29.7	79.6%	360.6%	136.8	99.7%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
28 Reserve Designated	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
29 Reserve Montgomery College							4.0		4.0		4.1		4.2		4.3
30 Reserve M-MCPC							4.3		4.5		4.6		4.8		4.9
31 Sub-total Reserves	195.8	90.1	18.0%	156.6%	231.2	13.9%	263.3	9.9%	289.3	7.9%	312.1	13.0%	352.8	11.6%	393.7
32 Less Revenue Stabilization Fund	(119.6)	(60.4)	-21.2%	56.2%	(94.3)	25.7%	(118.6)	17.2%	(139.0)	17.1%	(162.7)	21.1%	(197.1)	16.3%	(229.2)
33 Less Designated Reserve	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0
34 Sub-total Undesignated Reserves	76.2	29.7	79.6%	360.6%	136.8	5.7%	144.7	3.9%	150.3	-0.6%	149.4	4.2%	155.8	5.6%	164.5
35 Total Uses: Non-Agency	322.9	213.3	32.9%	101.2%	429.1	30.4%	559.8	8.8%	608.9	7.7%	655.7	7.2%	702.6	0.8%	708.1
36 Uses: Available for Agency Services	3,634.8	3,574.7	-5.9%	-4.3%	3,421.5	1.7%	3,479.4	-0.9%	3,448.9	2.9%	3,548.1	4.0%	3,690.1	4.7%	3,863.1
37 \$ Change from prior Budget	150.8	90.7			(153.1)		57.9		(30.5)		99.2		142.0		173.0

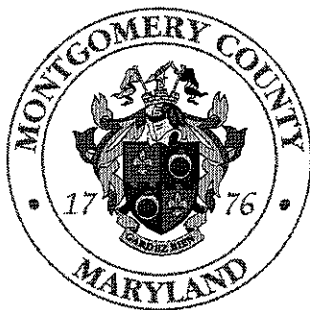
(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A-3 Schedule).

Montgomery County, Maryland

ECONOMIC INDICATORS

Presentation to the Montgomery County Council

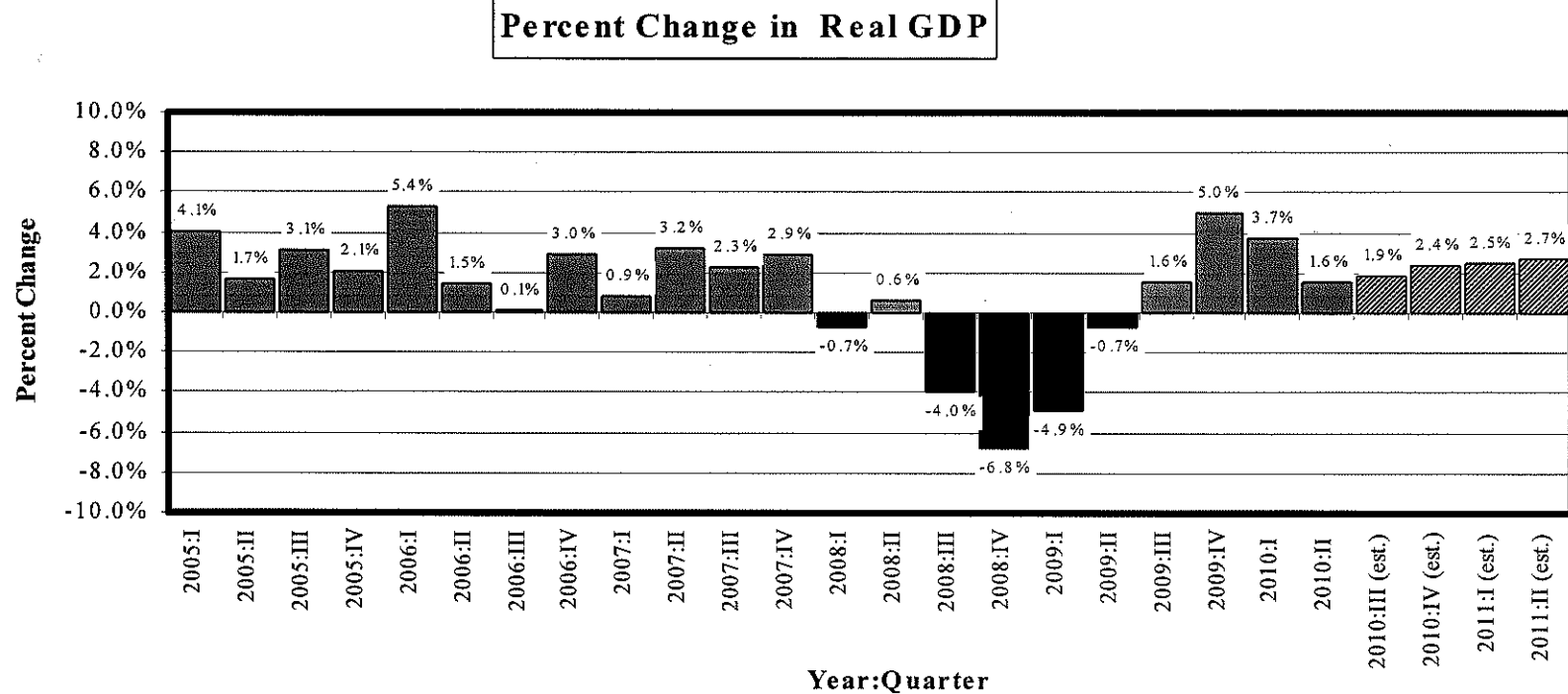
Department of Finance



September 28, 2010

National Economic Indicators

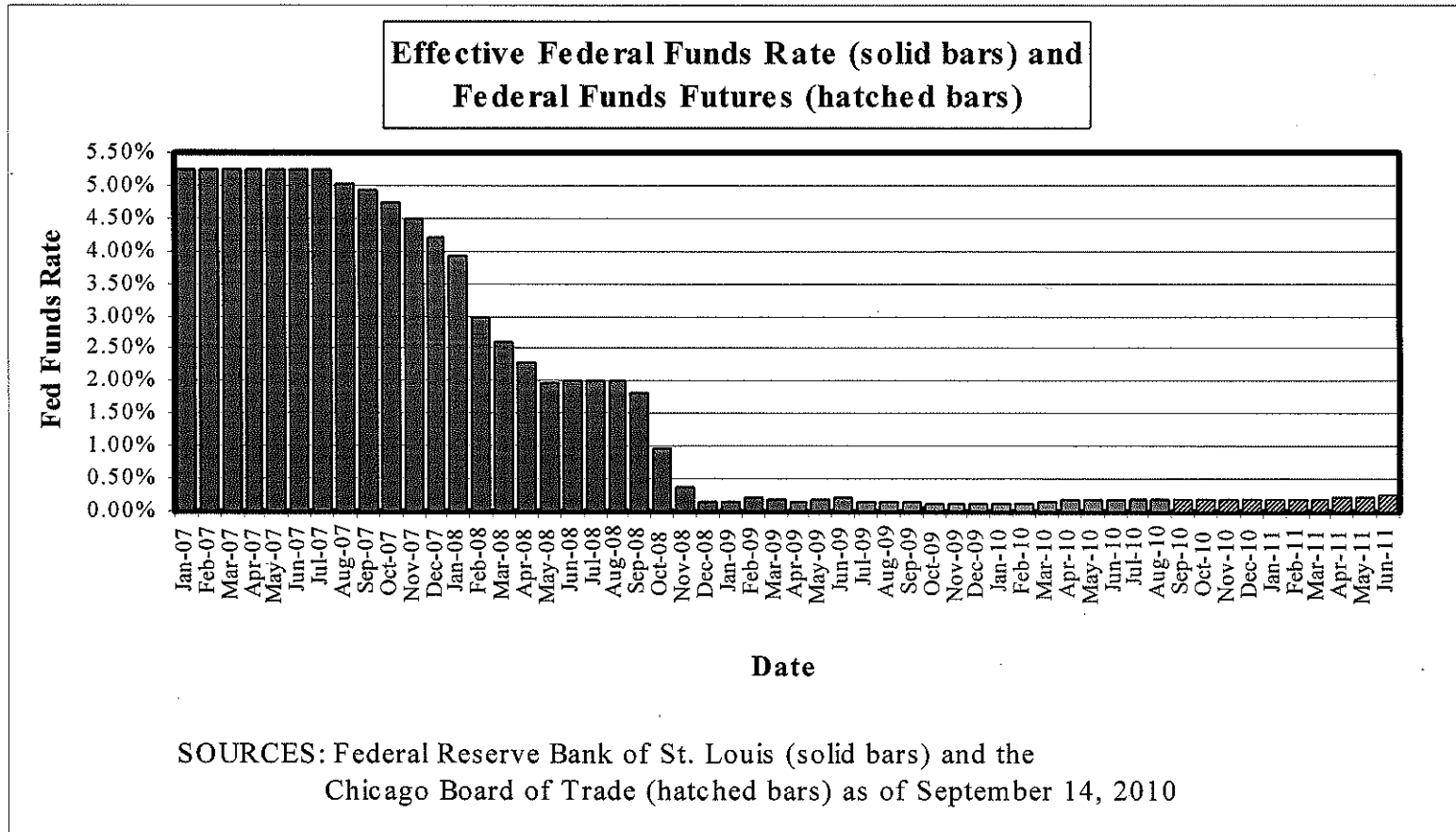
BEA reported that real GDP increased 1.6 percent during the second quarter. On average over 50 economists surveyed by *The Wall Street Journal* earlier this month expect GDP to increase 1.9 percent this quarter and 2.4 percent during the fourth quarter.



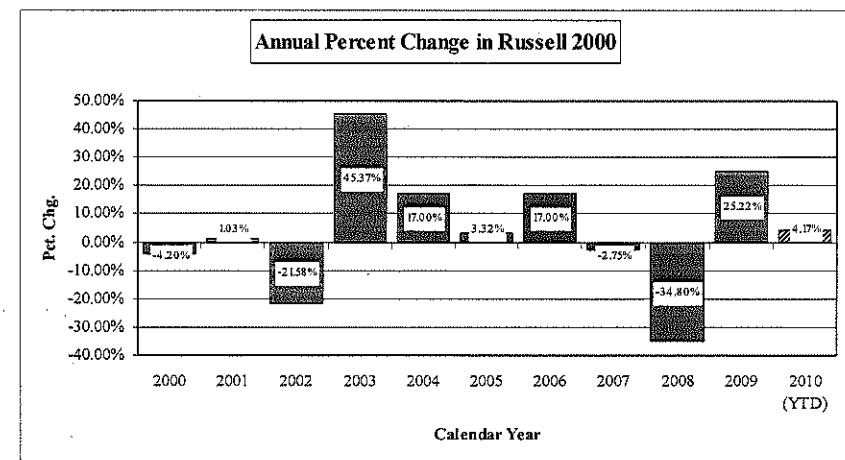
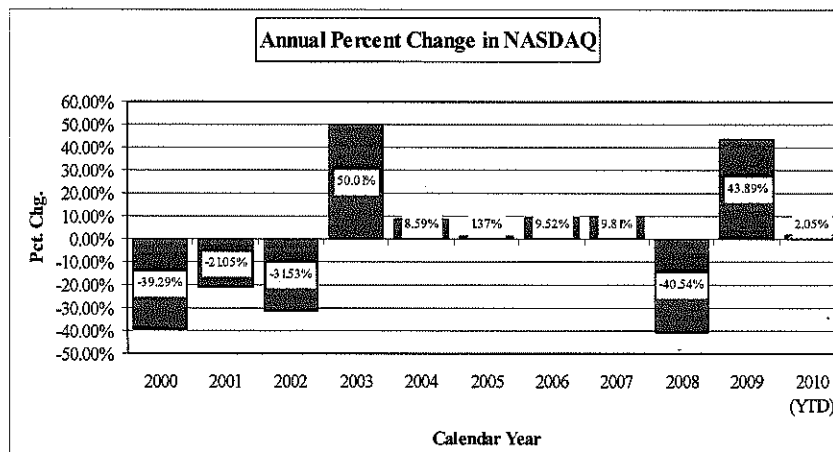
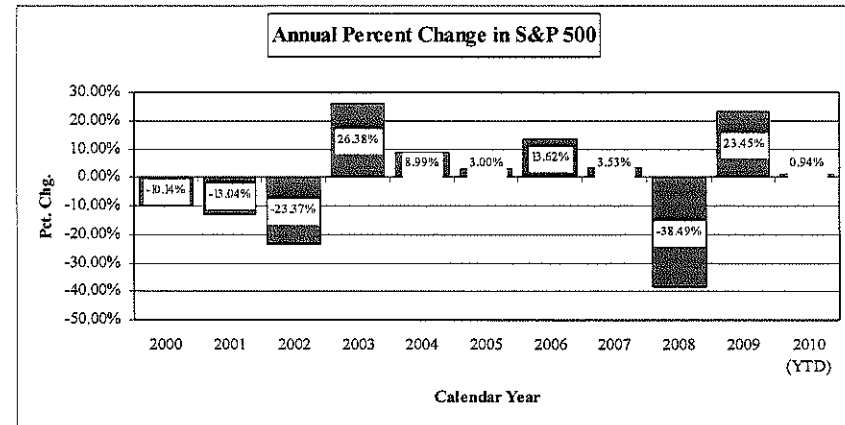
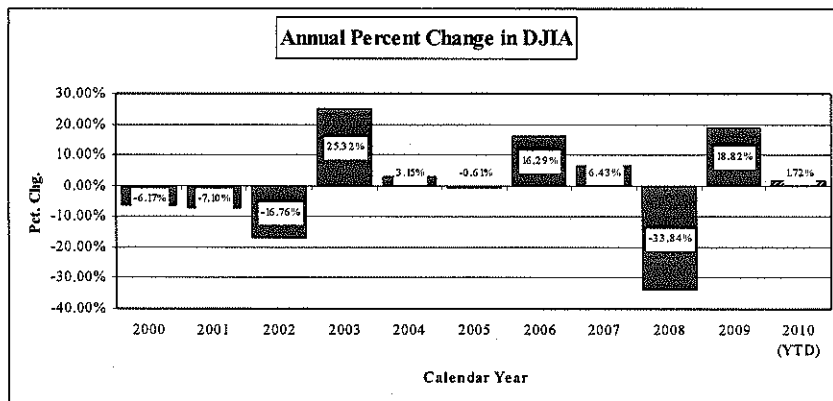
SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted September 3-7, 2010.

NOTE: Percent changes are at annual rates.

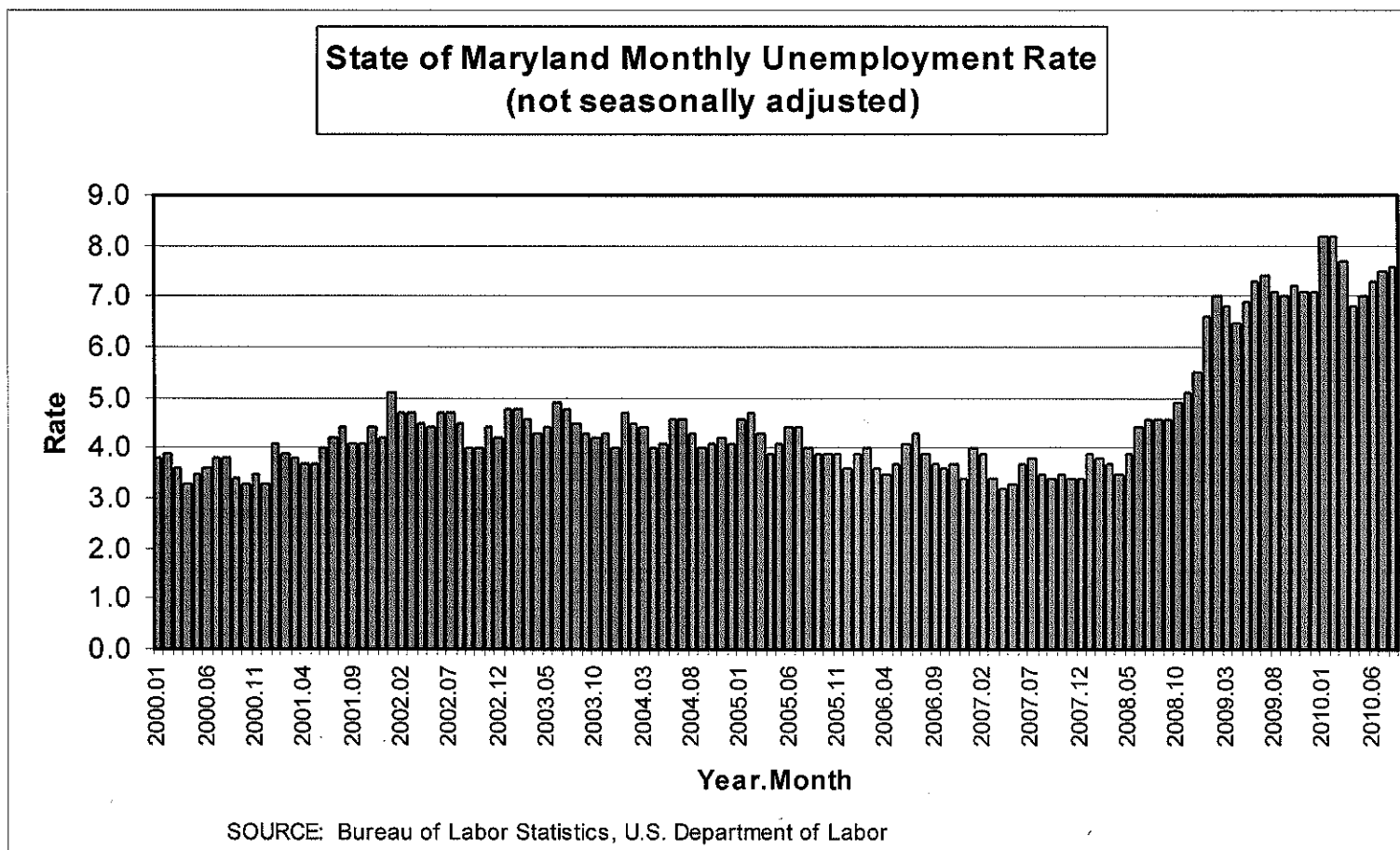
On September 21st, the Federal Open Market Committee of the Federal Reserve decided to keep its target range for the federal funds rate at 0.00 to 0.25 percent. The futures market anticipates no changes to the target range until the fall of next year.



**After experiencing double-digit growth in 2009, the stock market this year has grown by less than 5 percent through September 17th.
(DJIA ↑1.72%; S&P 500 ↑0.94%; NASDAQ ↑2.05%; Russell 2000 ↑4.17%)**

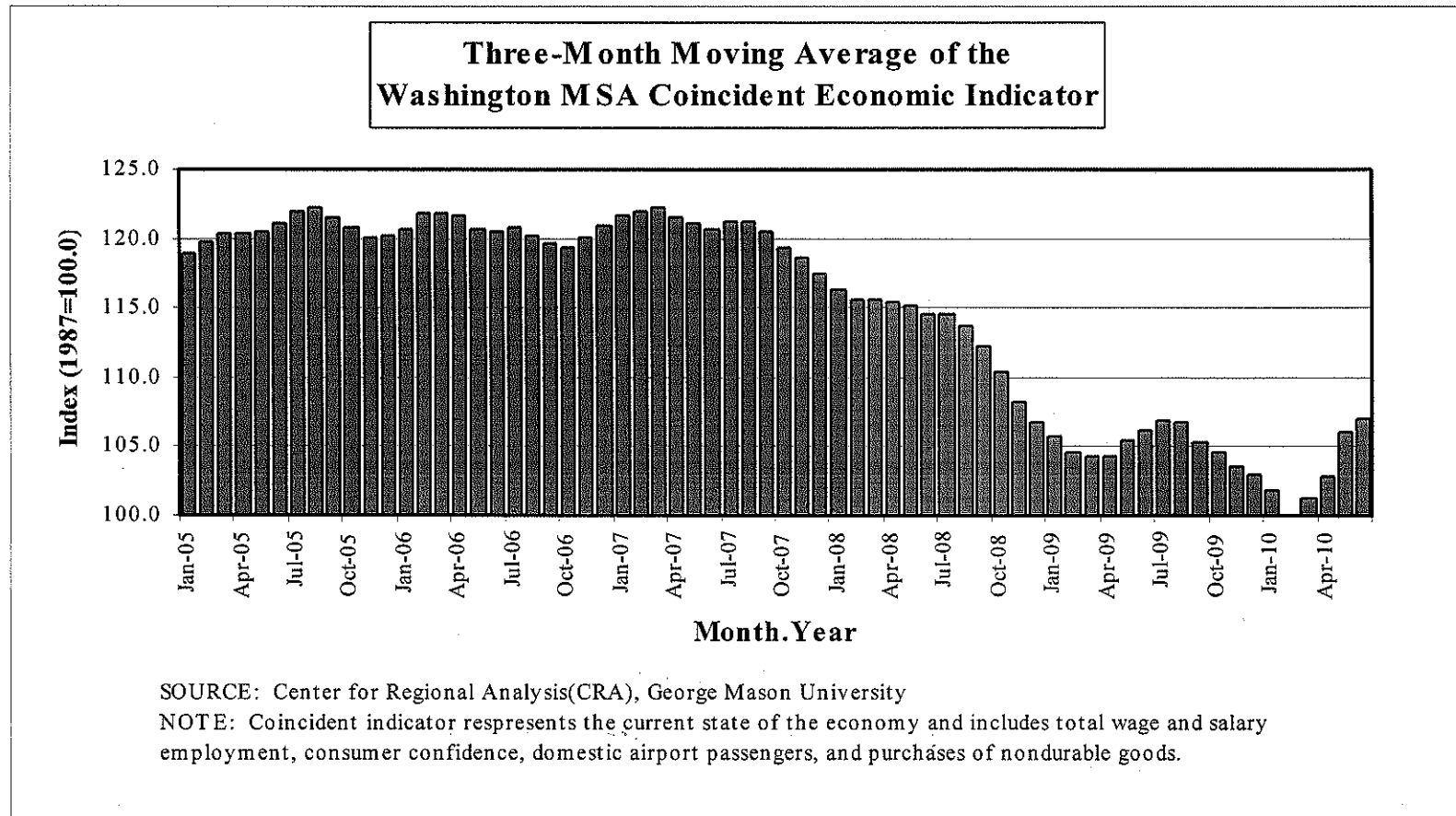


Maryland's unemployment rate was 7.6 percent in August (not seasonally adjusted) and has been at or above 6.6 percent since January 2009.

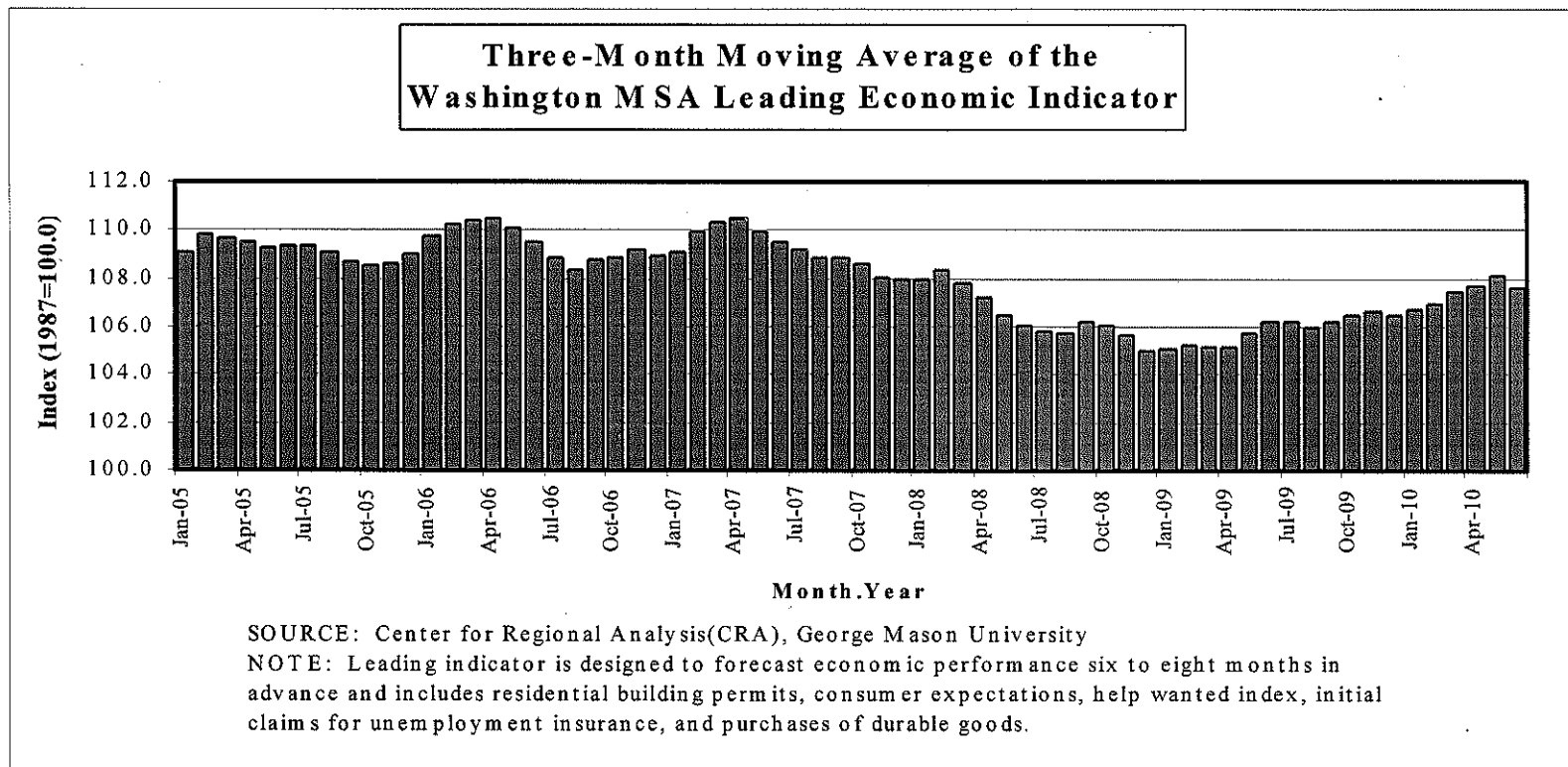


Regional Economic Indicators

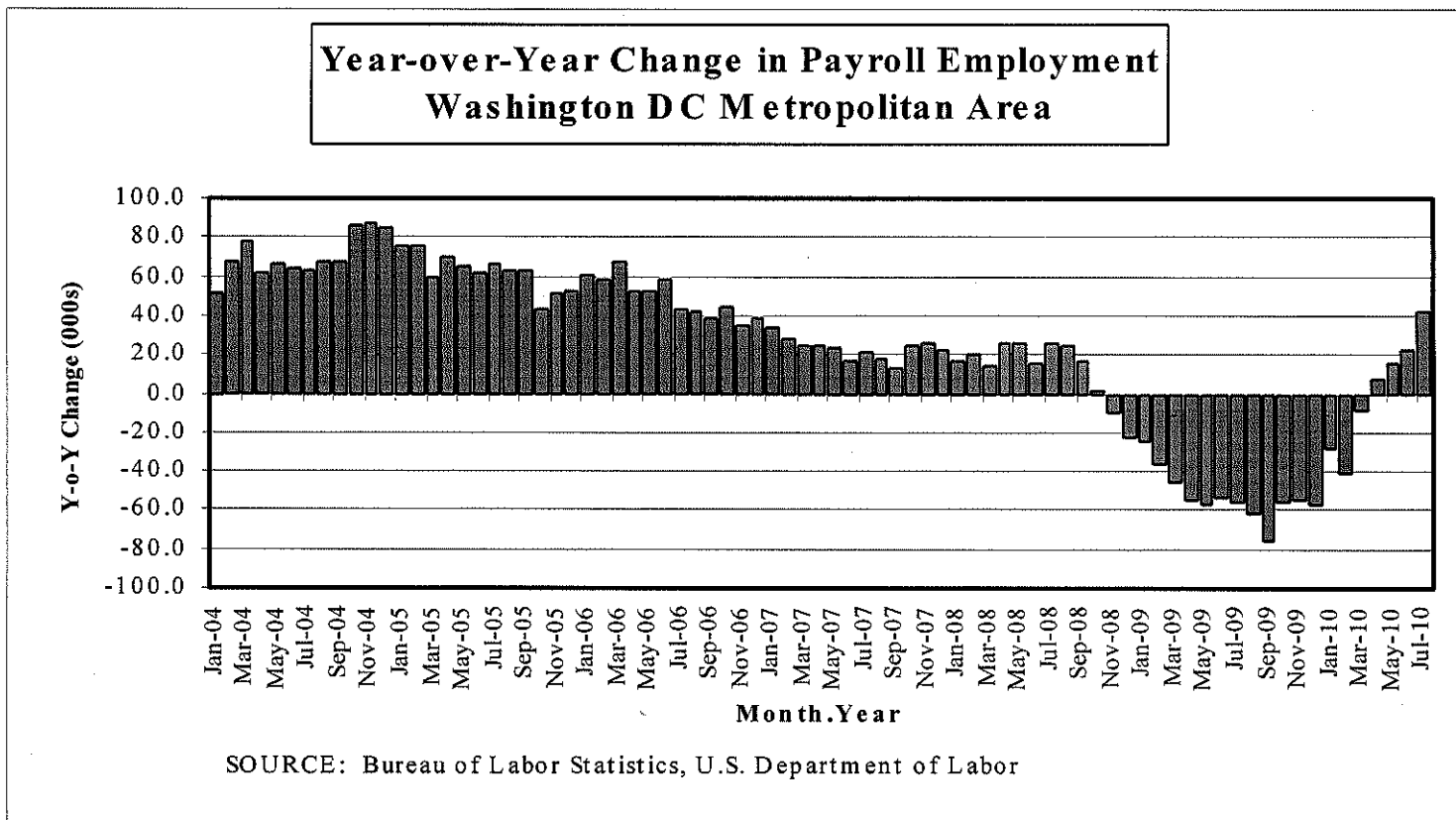
The Washington region's coincident economic indicator increased 0.9 percent (three-month moving average) in June over May for the fourth consecutive month.



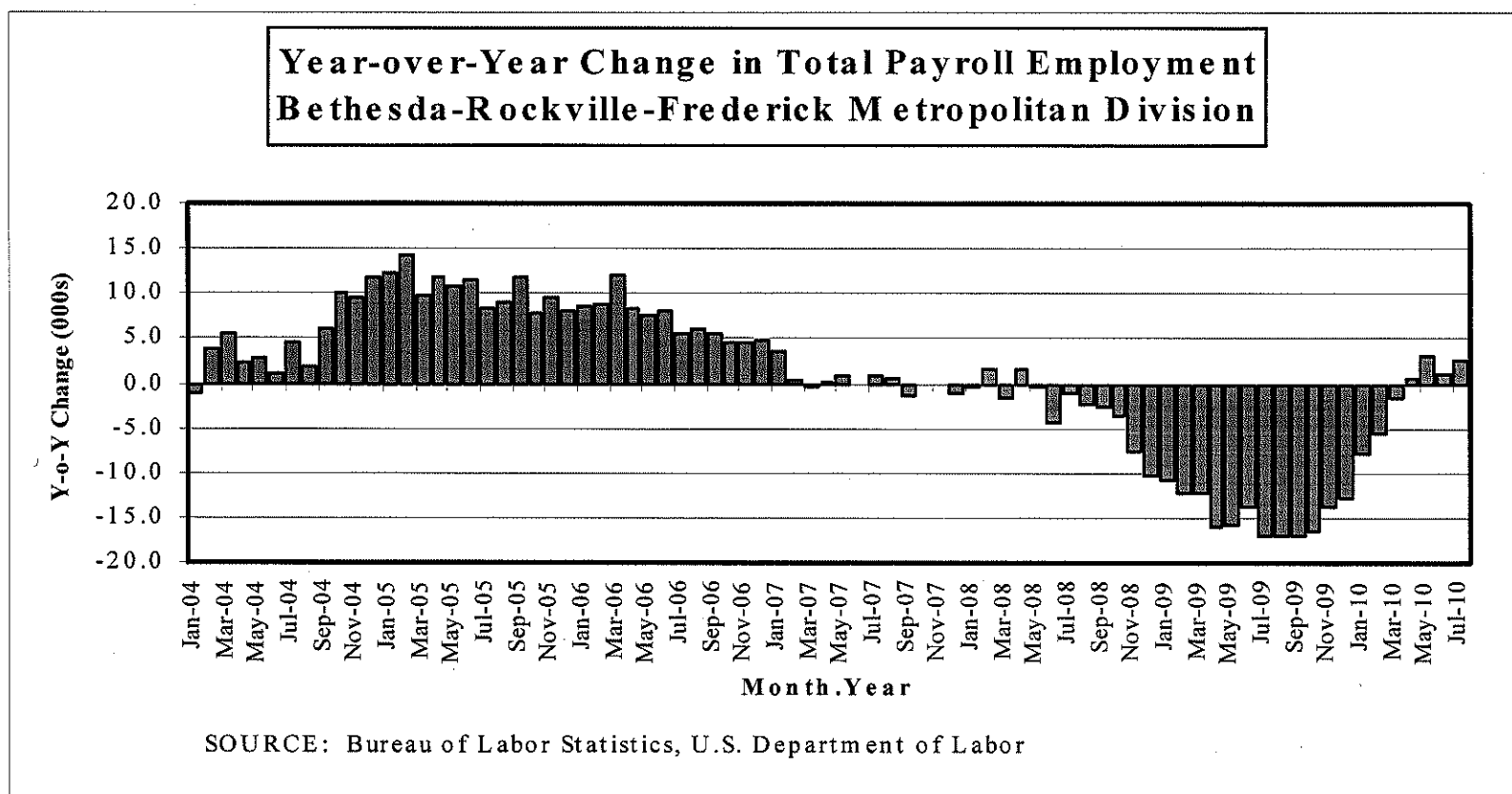
However, the leading index decreased 0.4 percent (three-month moving average) in June over May, after increasing for five consecutive months. Both indicators suggest that the region's economy has begun to improve albeit the recovery may be a slow and lengthy process through the remainder of 2010.



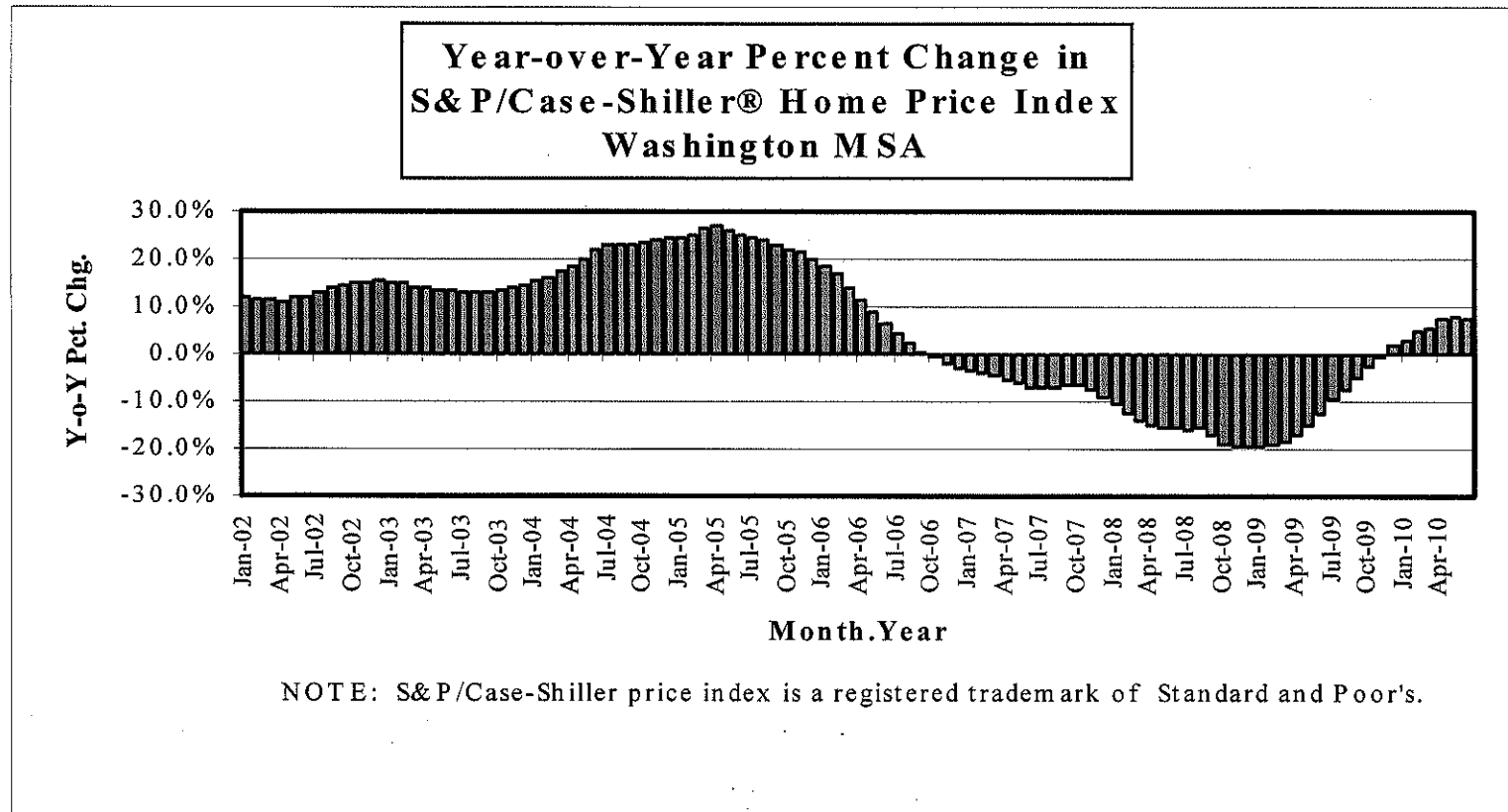
As the region's economy improved, payroll employment in the metropolitan region stood at over 3.013 million in July compared to 2.971 million in July '09 - an increase of 42,000.



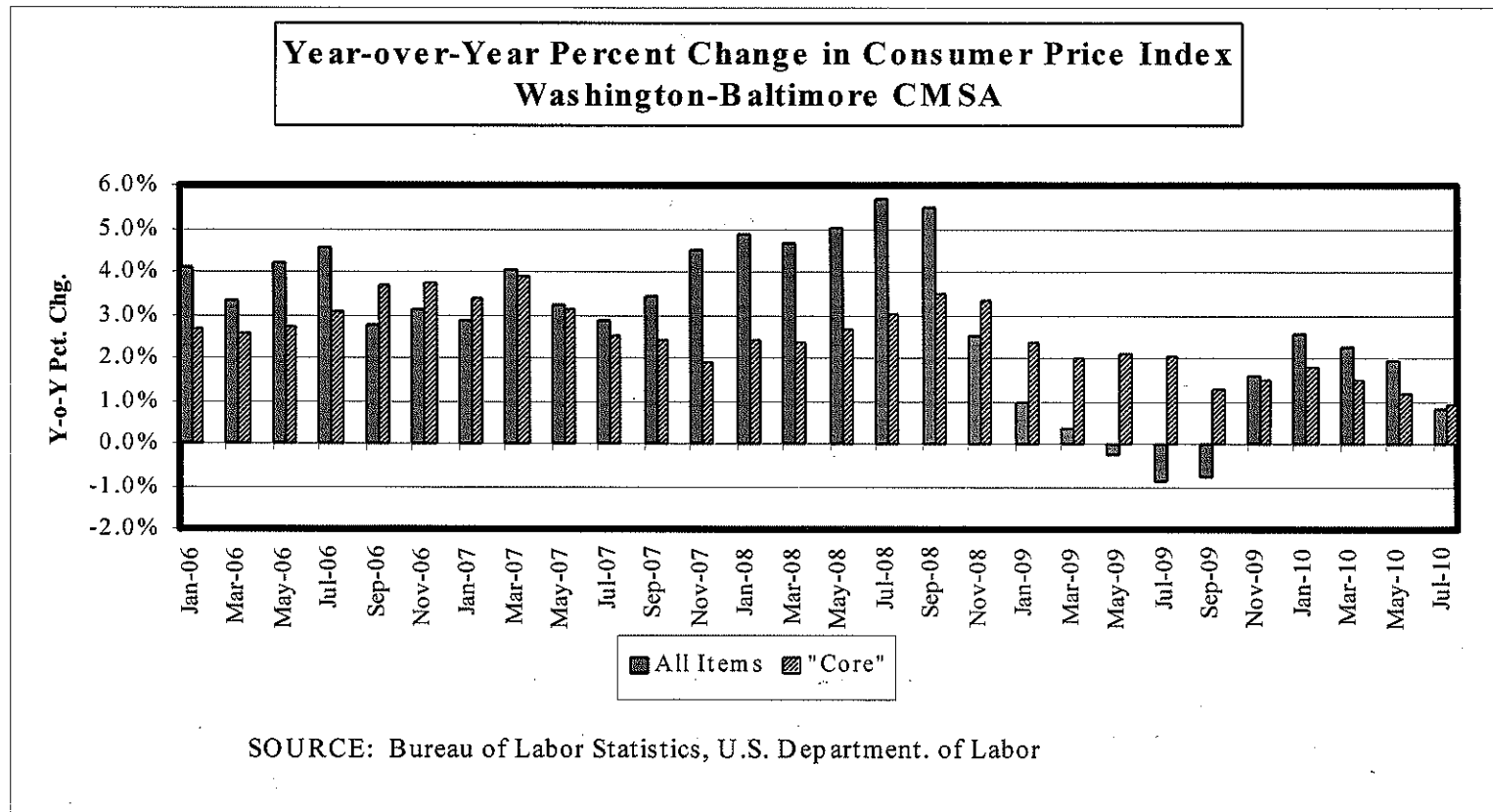
Payroll employment for Montgomery and Frederick counties stood at 564,400 in July - an increase of 2,700 jobs since July '09. For the first seven months of this year, monthly payroll employment averaged 559,000 – a 0.2 percent decline over the monthly average for the same period last year.



Based on the Case-Shiller® index, home prices in the Washington metropolitan region increased 7.3 percent in June compared to June '09. However, caution is warranted because of the expiration of the first-time homebuyers credit.



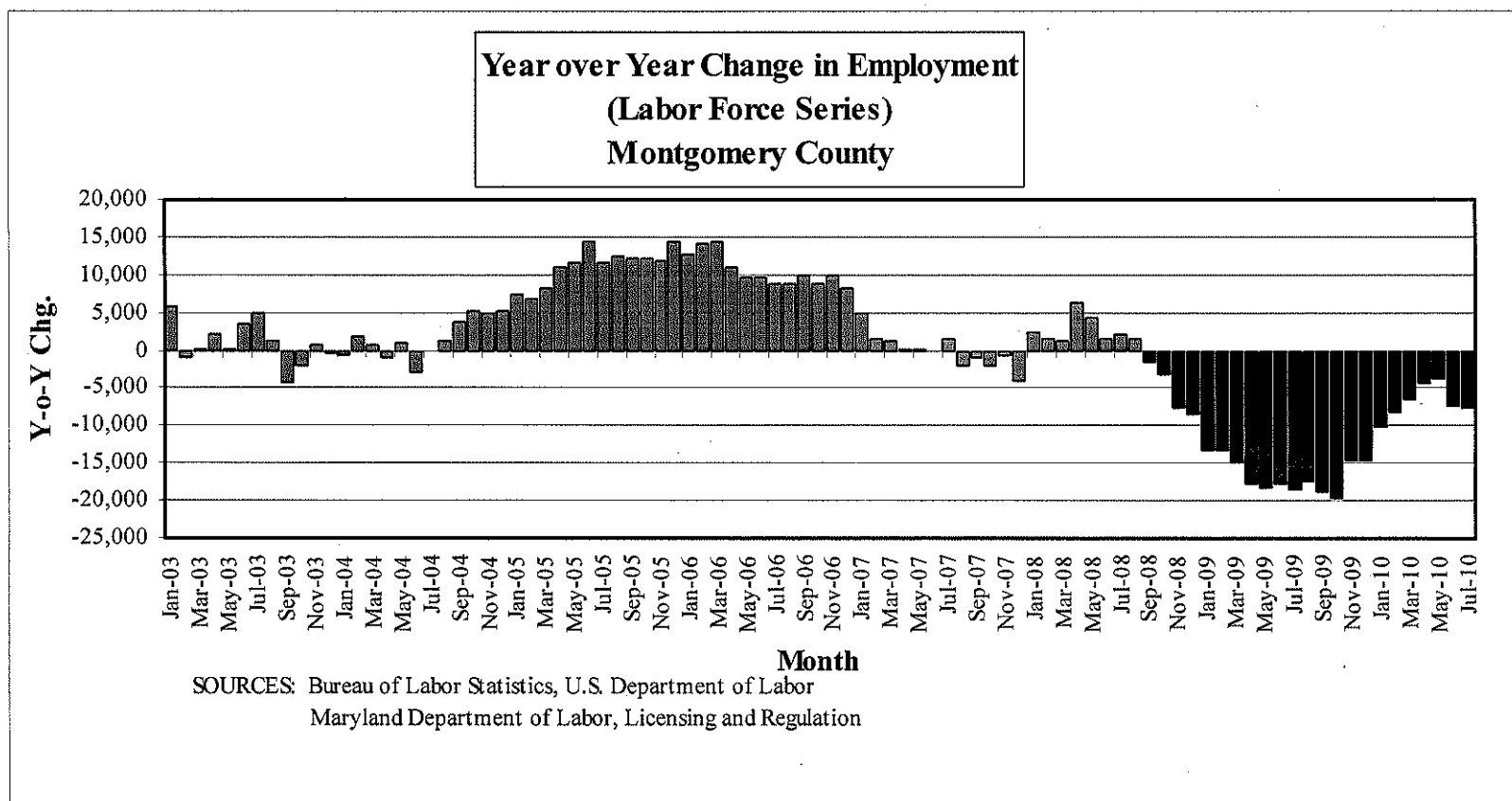
Because of rising gasoline prices, the overall consumer price index for the Washington-Baltimore consolidated region increased a modest 0.8 percent in July compared to July '09. For the calendar year to date (January through July), the index increased 1.92 percent compared to 0.05 percent in 2009.



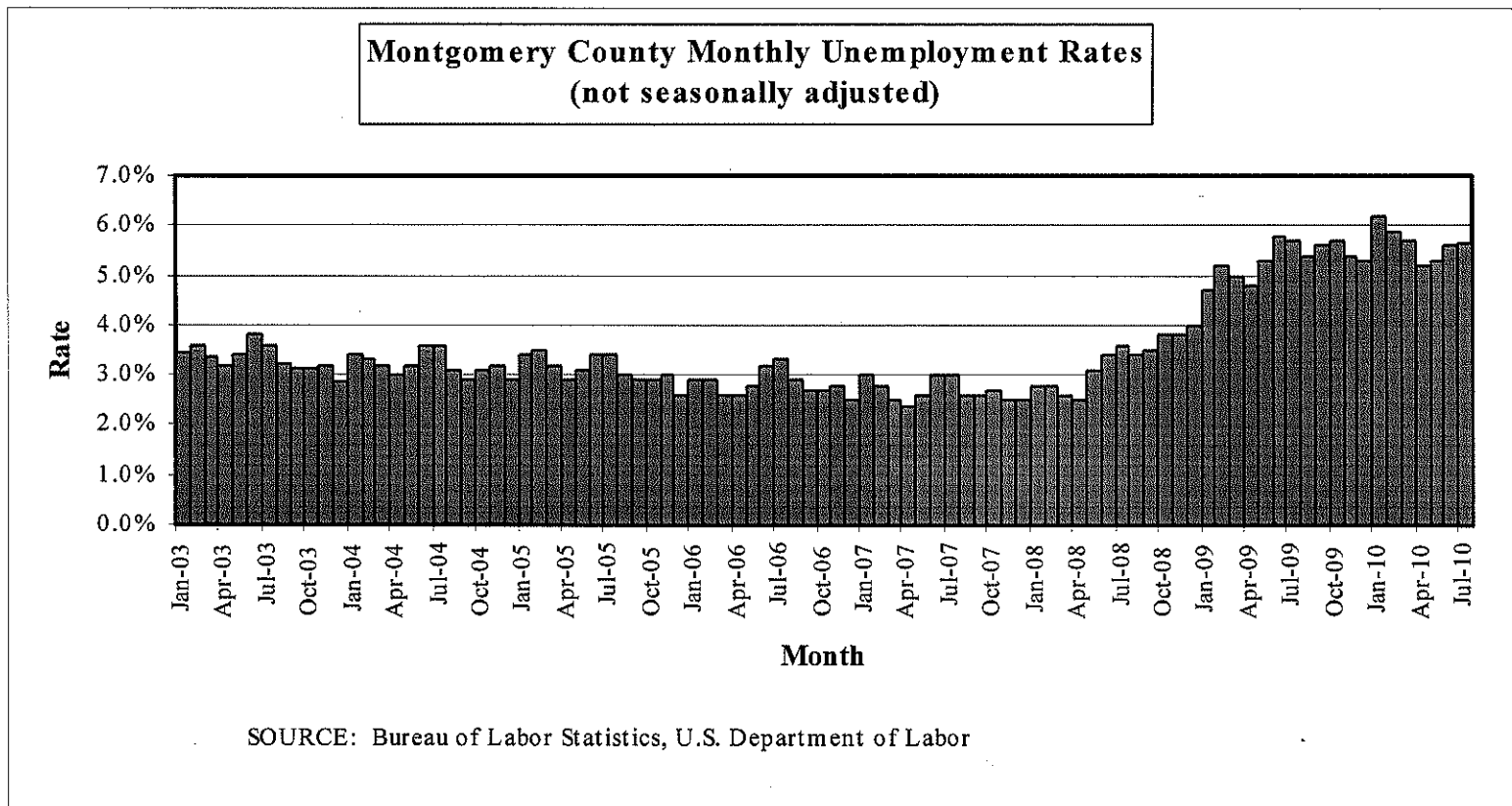
Montgomery County Economic Indicators

ECONOMIC INDICATOR DASHBOARD	LATEST DATA	REVENUE AFFECTED	EXPLANATION	COMPARISON	OUTLOOK
INFLATION	1.92% Jan.-July 2010	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2009: 0.23% 2008: 4.52%	↔
UNEMPLOYMENT RATE	5.7% July 2010	Income Taxes	Indicates overall health of the job market	June 2010: 5.6% July 2009: 5.7%	↔
RESIDENT EMPLOYMENT	487,884 July 2010	Income Taxes	Primary determinant of income tax receipts	June 2010: 481,754 July 2009: 495,522	↔
PAYROLL EMPLOYMENT	467,800 July 2010	Income Taxes	Another determinant of income tax receipts	June 2010: 469,400 July 2009: 465,600	↔
STOCK MARKET - S&P 500	1,125.59 as of Sept. 17	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2009: 1,115.10 2008: 903.25	↑
HOME SALES	860 August 2010	Transfer/ Recordation Taxes	Indicates activity affecting receipts	July 2010: 879 Aug 2009: 967	↓
HOME PRICES	\$474,376 August 2010	Transfer/ Recordation Taxes	Taxes are based on values, affects amount of taxes collected	July 2010: \$492,036 Aug 2009: \$456,860	↔
FEDERAL FUNDS RATE	0.19% August 2010	Investment Income	County's return on investments closely correlated with the Fed Fund rates	July 2010: 0.18% Aug 2009: 0.16%	↔

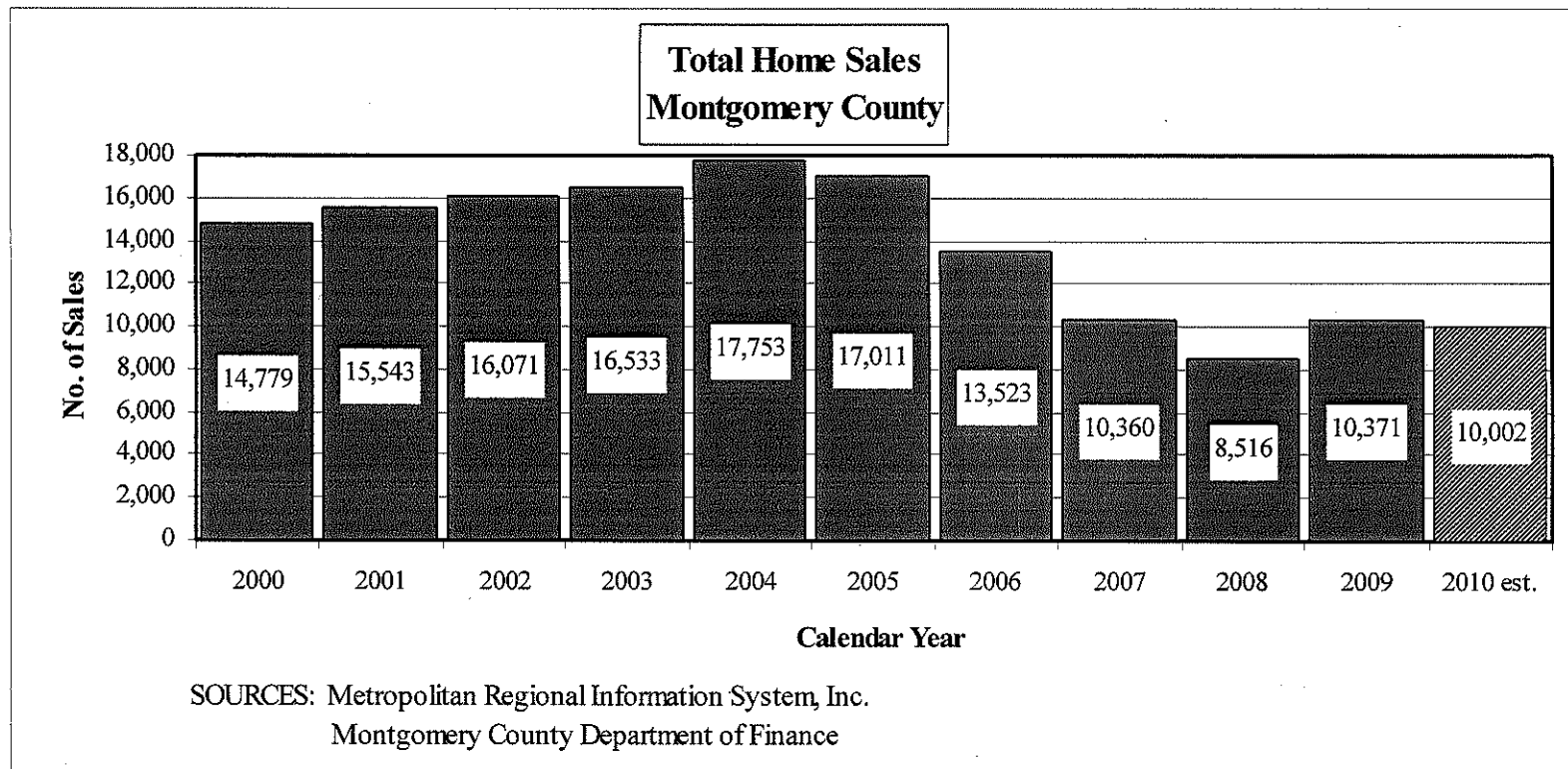
Resident employment in Montgomery County was 487,900 in July compared to almost 495,500 in July '09 - a decline of 7,600. Since September 2008, the year-over-year change in the County's monthly employment declined each month.



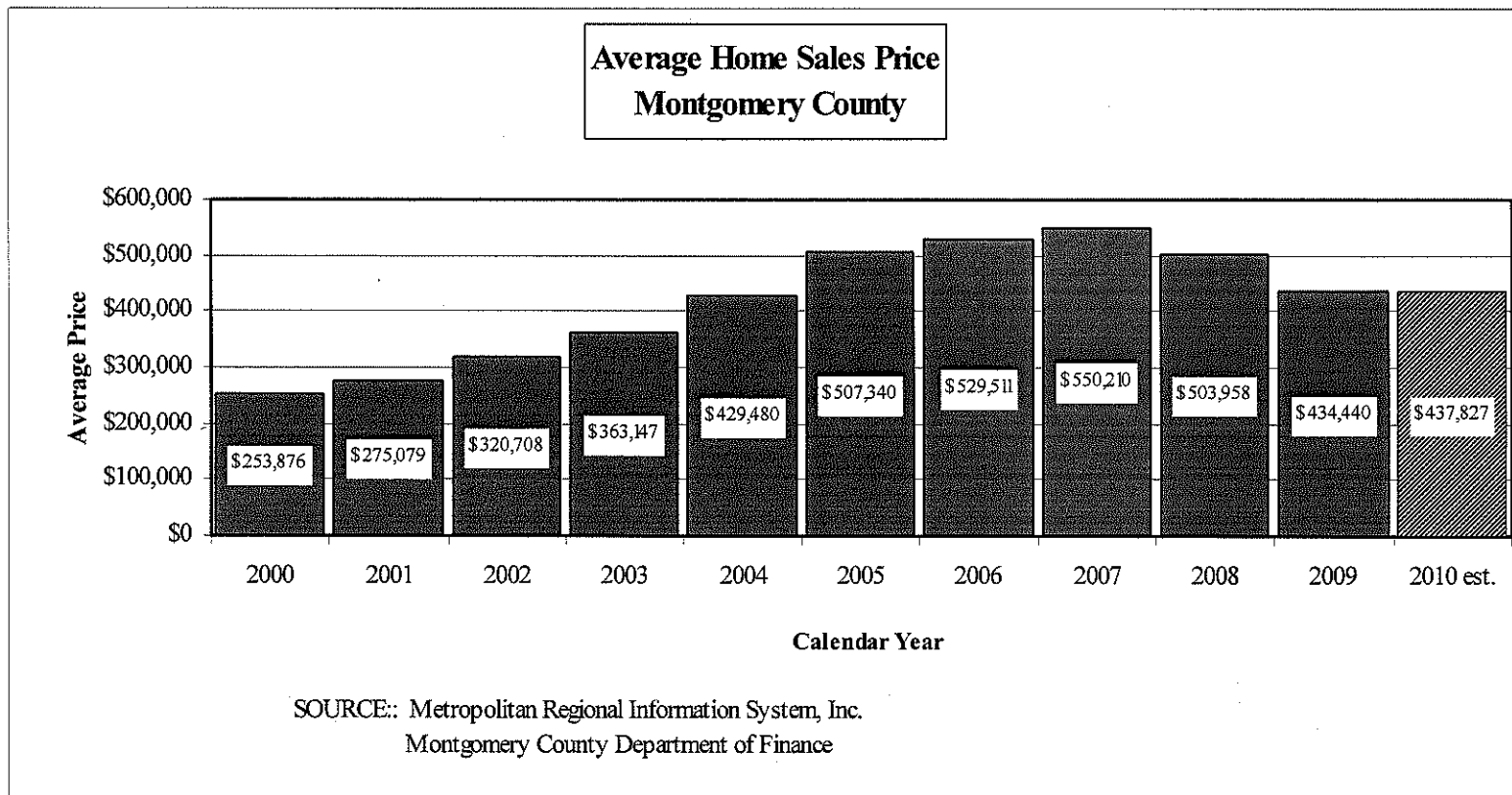
Because of the steady decline in the County's employment, the unemployment rate has risen from 3.4 percent in August 2008 to 5.7 percent in July of this year.



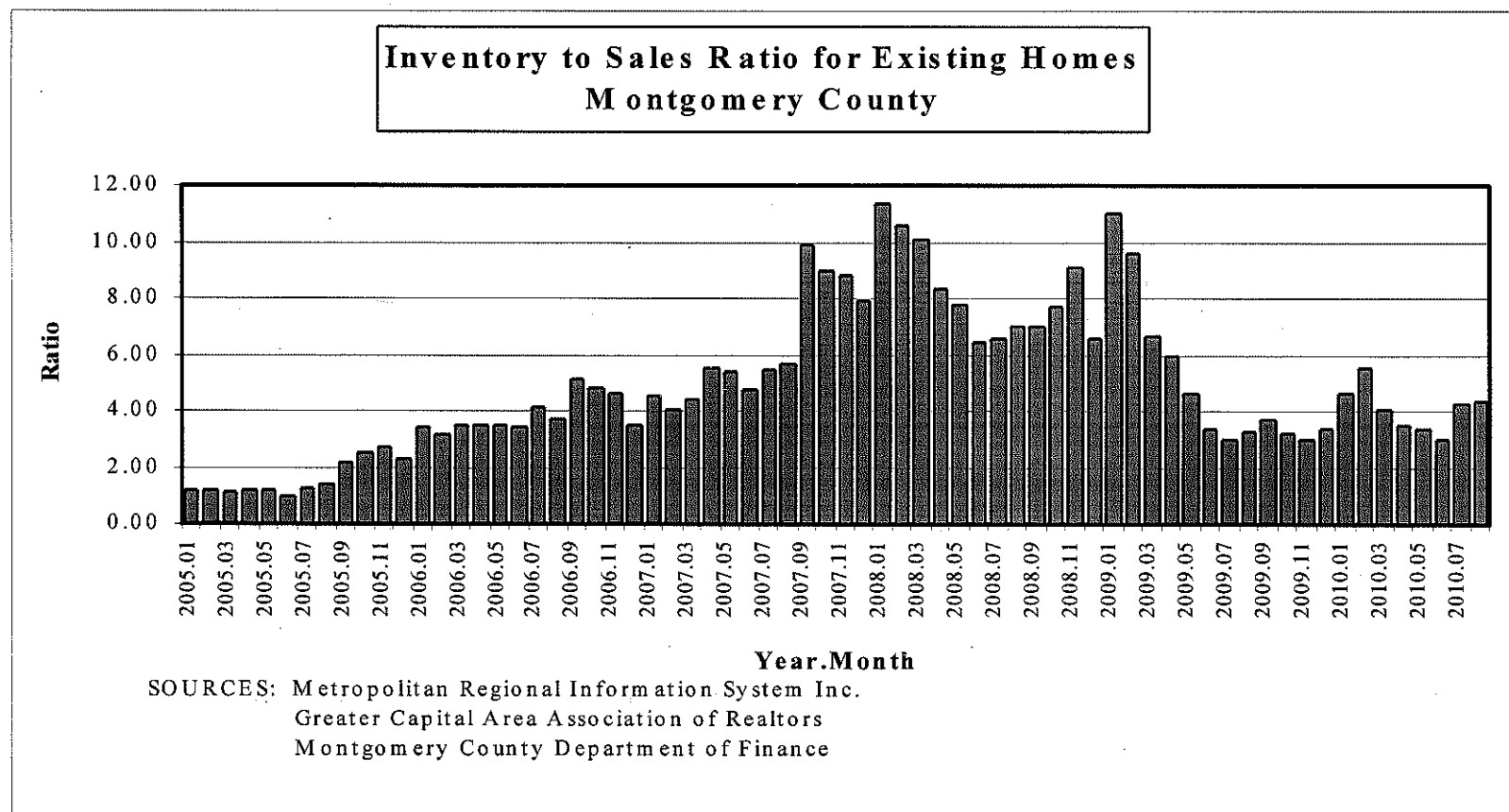
With the expiration of the first-time homebuyers credit, total sales of existing homes are expected to decrease 3.6 percent in 2010 compared to an increase of 21.8 percent in 2009.



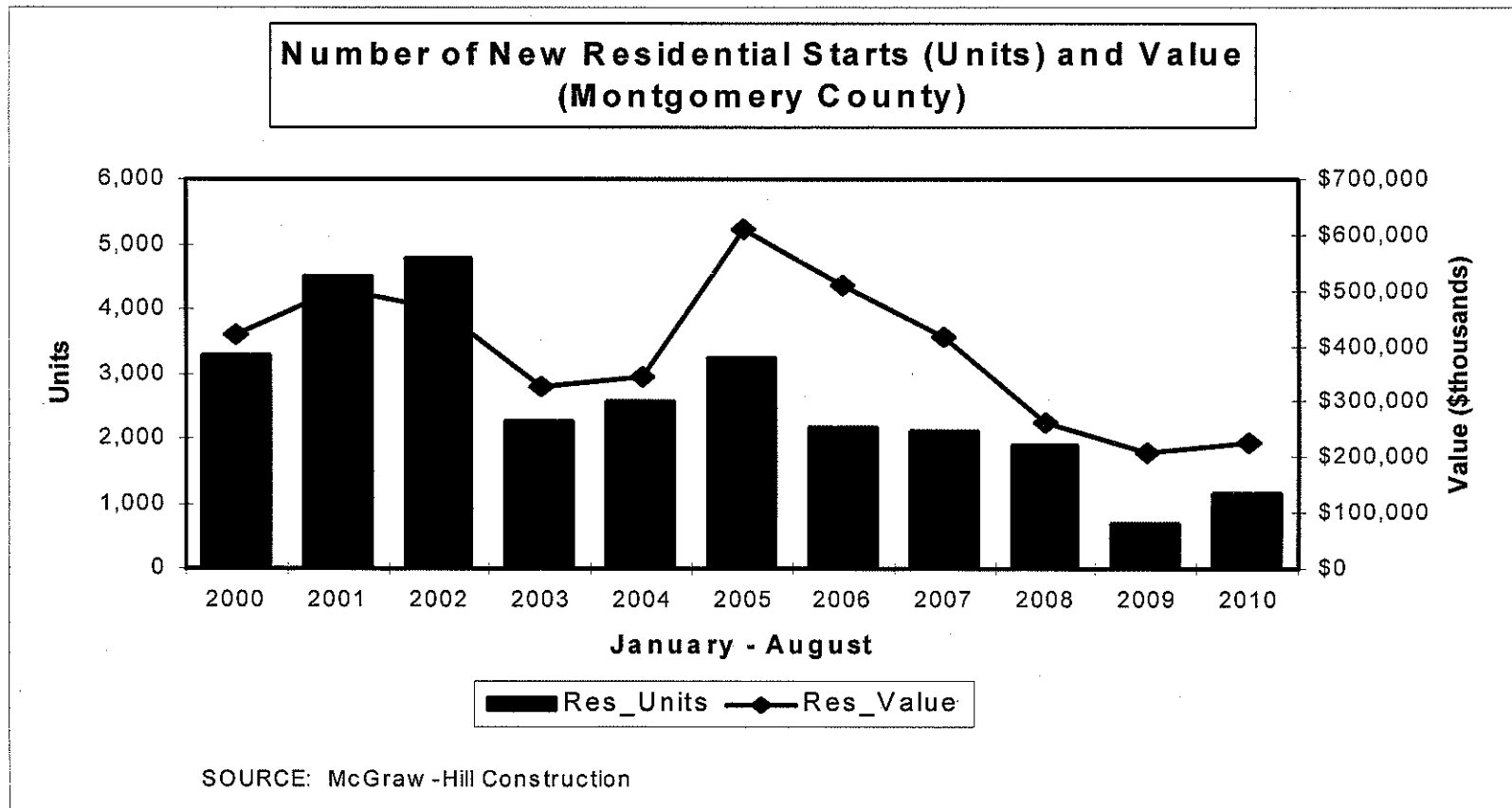
While the sales of existing homes in the County are expected to decrease in 2010, the average sales price is expected to increase by less than 1 percent, which follows decreases of 8.4 percent (2008) and 13.8 percent (2009).



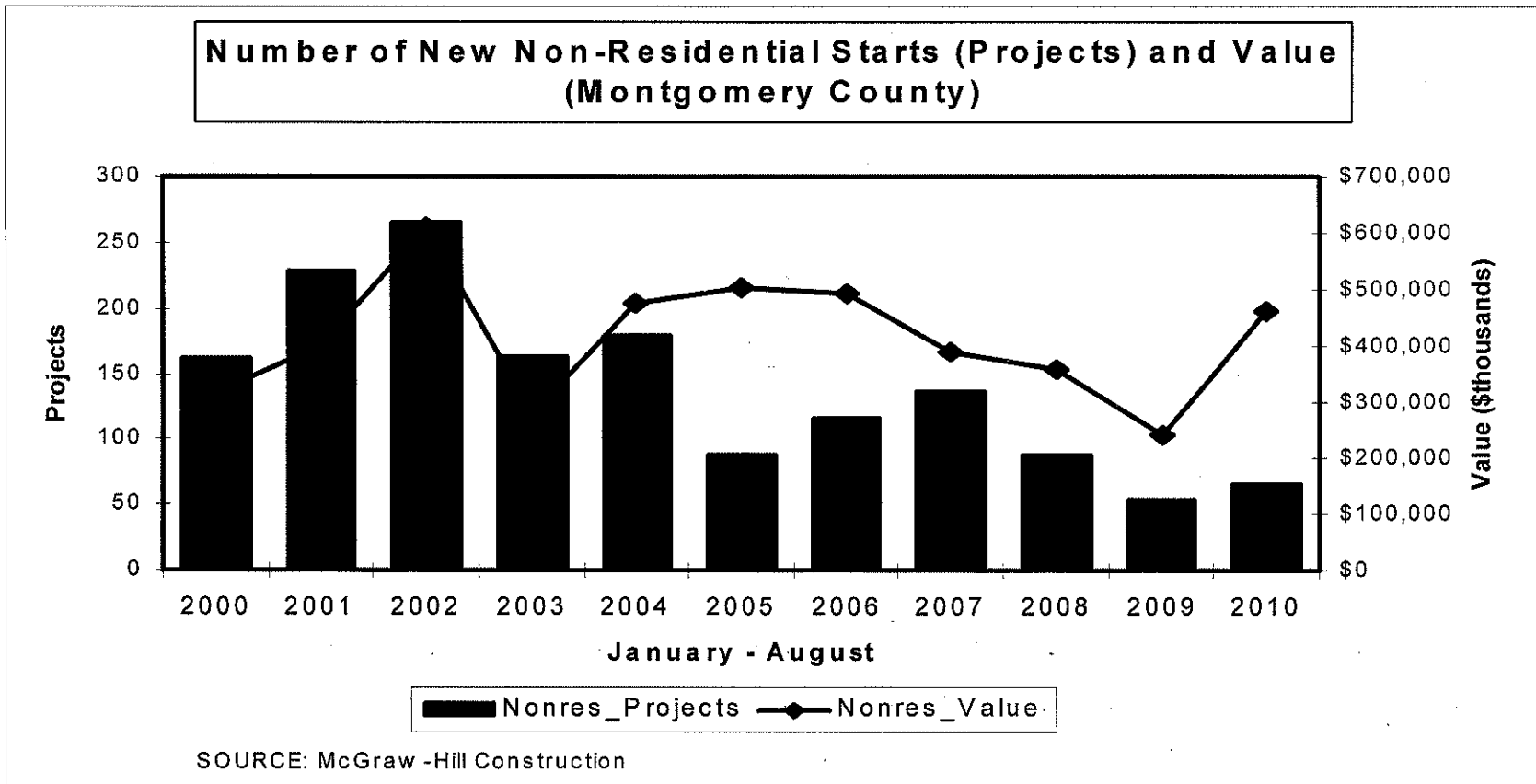
The inventory of existing homes for sale has declined from its peak of an eleven-month supply in January 2009 to slightly more than a three-month supply in June. However, with the sales declines in July and August, the latest inventory figure has increased to more than a four-month supply.



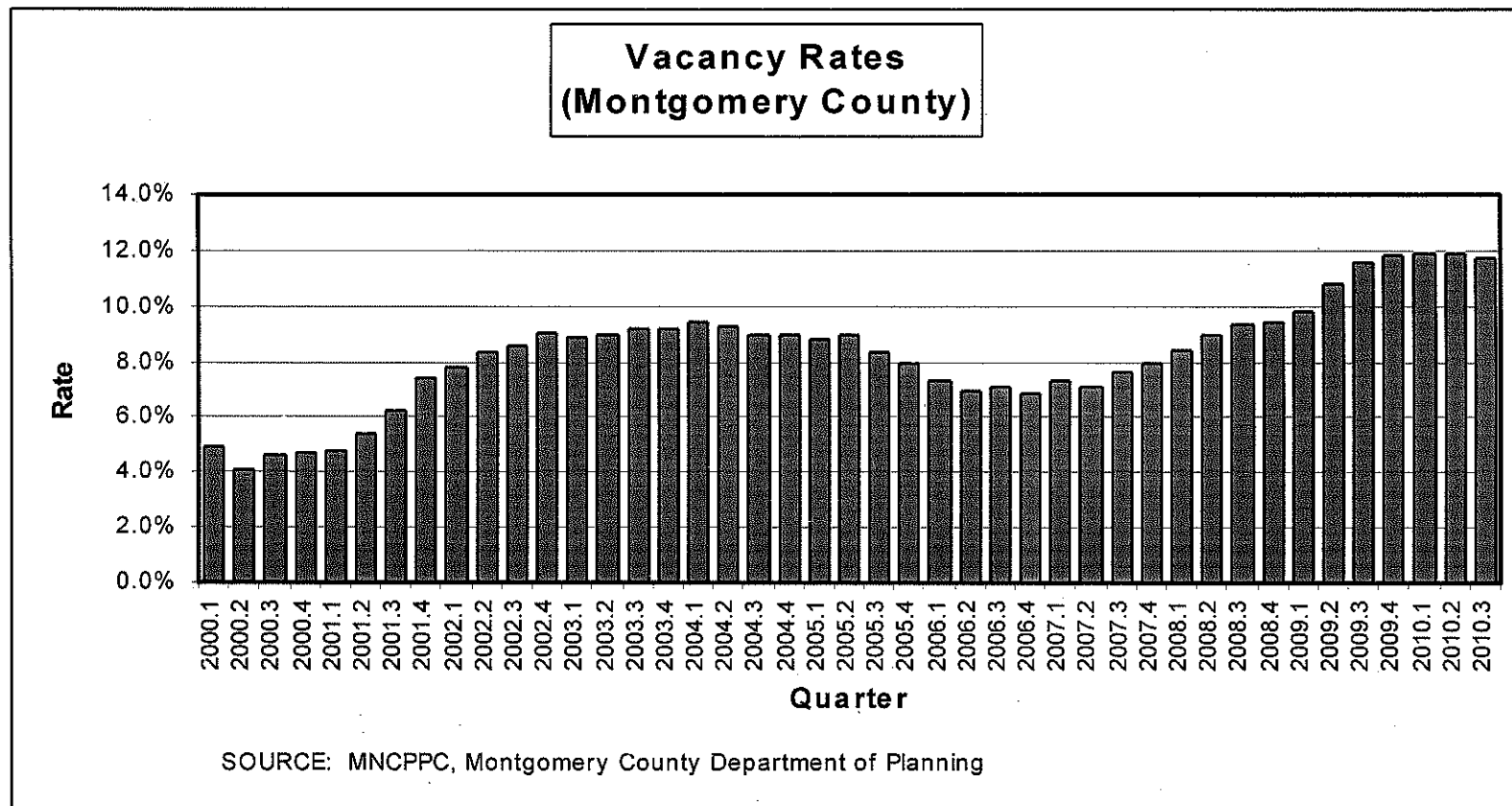
The increase in home sales during the latter half of 2009 and the first half of 2010 has affected new residential construction. The number of residential starts (units) increased from 700 in 2009 (January to August period) to nearly 1,200 in 2010 – an increase of 68.0 percent.



The number of non-residential construction starts (projects) also showed a dramatic increase during the first eight months of this year compared to the same period in 2009. Starts increased 21.9 percent – the first increase since 2007.



Prior to this year, the decrease in non-residential construction is attributed to the steady increase in the vacancy rates of office space in the County. Since the second quarter of 2007, that rate increased from 7.1 percent to 11.7 percent during the third quarter of this year.



Summary

- **Inflation:**
 - The recent year-do-date figure for inflation of 1.92 percent for CY10 is in line with Finance's estimate prepared for the FY11 budget and is one and one-half percentage points above CY09. If that rate holds for the remainder of this calendar year, the amount of property tax revenues under the Charter Limit will increase 2.00 percent in FY12 over FY11.
- **Employment:**
 - The County's unemployment rate has remained relatively constant during the past year (through July) at 5.7%.
 - Because the unemployment rate is a lagging indicator in terms of an economic recovery, it may not improve significantly this fiscal year. If the economic forecasts are correct in that the national unemployment rate could decline only to 9.3 percent (from the current 9.6%) by June 2011 (*Wall Street Journal*), employment will remain a drag on the economy for the foreseeable future.
 - The County's resident employment was 487,900 in July – a decline of nearly 7,700 from July 2009. With a decline in resident employment and possibly slow recovery, both factors may continue to have an effect on income tax revenues in FY11 and possibly FY12.
- **Housing Sales and Average Sales Prices:**
 - Home sales are expected to decline 3.6 percent in CY10 which is attributed to the expiration of the first-time homebuyers credit.
 - Average sales prices are expected to increase by less than one percent in CY10. That modest increase is consistent with the Case-Shiller index for the region.